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C O N F I D E N T I A L SECTION 01 OF 03 BAGHDAD 003038

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TAGS: [EPET](#) [ENRG](#) [ECON](#) [EFIN](#) [EINV](#) [PGOV](#) [PREL](#) [IZ](#)  
SUBJECT: PROSPECTS FOR HYDROCARBON LAW PASSAGE - NOT SO  
BAD, BUT NOT SO SOON

Classified By: CETI/EMIN Ambassador Charles Ries, reasons 1.4 b and d

[11](#). (C) SUMMARY: Iraqi leaders are pessimistic about the speed at which Iraq can pass the framework hydrocarbon and revenue management laws, but believe the GOI already has the parliamentary majority needed to ultimately enact the laws. END SUMMARY.

VP thinks passage likely, but not soon  
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2 (C) Vice President Adil Abd al-Mahdi assured EMIN on September 4 that the GOI could get the framework hydrocarbon law to a vote in the Council of Representatives (CoR), and that the GOI has a majority that would support passage. The only obstacle is getting the Tawafuq bloc to agree. He said Tawafuq is now asking for clarification about the annexes to the law (which would determine, among other issues, who controls existing fields). Al Mahdi said he needs to see what the real issue might be, because in his view the annexes pose no major problem. He thinks VP Tariq al Hashemi is the main player for a deal.

[13](#). (C) The CoR has to do two readings of the draft law, but al-Mahdi does not think that will happen in the next two weeks. The Kurds agreed on the February 2007 version, and the GOI will go back to that text, since the GOI agreed in the leaders' conference on that (except possibly for Tariq al-Hashemi, who expressed his reservations but still has said nothing).

[14](#). (C) The VP added that he has always been supportive of the vision set out in the hydrocarbon bill, even before the last regime fell. He remarked that the POTUS visit to Anbar on September 3 was marked by great enthusiasm on both sides, giving him reason for optimism in the long term. He cited provincial agricultural growth statistics as tangible evidence on the ground of reconciliation.

[15](#). (C) Al Mahdi also expressed an interest in viewing an Embassy-generated presentation on oil prospects in Anbar province. He commented that production-sharing agreements, as permitted in the draft law, would be best for that region.

DPM thinks progress will be slow  
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[16](#). (C) Deputy Prime Minister Barham Saleh told us on September 4 that President Bush had personally pressed the Sunni leadership for passage of the hydrocarbon framework law while he was in Anbar on September 3. Provincial leaders responded by referring to a technical presentation put together by Embassy Baghdad on local oil prospects, which argue in favor of a national law.

[17](#). (C) Saleh thinks passage is not impossible, but because of politics, will not be possible by mid-September. He does not think the GOI will even manage to arrange its first

reading of the text in the CoR by then. The Kurds and Shia are in agreement, but the Sunnis require some heavy political lifting. The February 2007 version, without changes, is what will be presented to the CoR, although the Sunnis are trying to game the appendices. His strategy is to let the entire text go to the CoR, where the members can take care of any language changes through the normal parliamentary process. In any event, he said no one is really even thinking about the hydrocarbon bill now; the immediate focus is on the de-Baathification law. He has no one in charge of shepherding the hydrocarbon law through the CoR, because all the paperwork is done; the only remaining piece is to make the political decisions. The week of September 9 he does plan to discuss in Cabinet the revenue sharing bill (the companion legislation to the hydrocarbon bill).

¶8. (C) EMIN pointed out the economic and political advantages to early passage, but Saleh said he thinks the Sunnis do not want the Shia government to succeed, and that they have a very different view of what a centralized government should look like.

Oil and Gas Chairman wants to start from scratch  
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¶9. (C) Ali Husayn Belu, the chairman of the oil and gas committee in the Council of Representatives (Kurd), told EMIN on September 9 that in his view, the textual differences between the February and July versions of the draft hydrocarbon law are quite small. He had met earlier in the day with the Deputy Speaker of the CoR to propose adapting the drafts, and pushing the adapted version to the parliamentary floor, where the differences between the political blocs can be aired. He wants to push it to the

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floor now because the Sunnis are playing a waiting game, lumping together resolution of de-Baathification, provincial powers, Article 140, and constitutional review, with political trade-offs expected among all. He hopes to have the first reading by the end of September, and then parliamentary discussion should last a few months.

¶10. (C) Belu mentioned that the private investment in refineries law, which had been approved already by the CoR, will also need to be considered with the hydrocarbon law. VP Tariq Hashemi objected to the refinery law, so the Presidency Council did not send it for publication, and so it has come back to the parliament for re-enactment. Hashemi objected to the grant of power to private investors to decide where to locate refineries, and the grant of provincial and regional power to approve licenses. Belu added that the Oil Minister, Shahrastani, has also been unhelpful, although Belu thinks the Minister has no authority to meddle. He remarked that the Minister is keen to award contracts to Asian firms, as opposed to US or European oil companies, and has repeatedly played a blocking role within the GOI.

¶11. (C) Belu added that technically, the GOI never has transmitted any of the various draft texts of the hydrocarbon legislation to the CoR. He says he needs to get a text from the Presidency Council, but once he does, then he will press for passage. The Tawafuq, however, hope to stall until after the "occupiers" leave. EMIN explained the USG interest in a hydrocarbon law. Belu noted that between the Kurd and Shia parties, the CoR has enough votes to pass the hydrocarbon law, even with unified Sunni opposition. EMIN noted the need for reconciliation, to which Belu opined that the existing CoR members were not interested in reconciliation; in his personal opinion the best solution would be to dissolve the parliament now or sit on the draft law for two years until the next elections. He suggested that the Sunnis need a campaign with their leadership explaining things to their people. In his view, the problem is that Sunni leaders lack leadership and fear their own base.

¶12. (C) Former Minister of Oil and current advisor to the Prime Minister Thamir Ghadban told EMIN on September 10 that new KRG contracts with IOCs are greatly complicating passage of a national law. The CoR has a text from July 3, which the Shura Council reviewed after the Council of Ministers (normally that should have happened before) only because of the press of time. Nevertheless, the Shura Council only made two major changes, one of format which Ghadban thinks improves the text, and one of substance. Now, KRG Minister of Natural Resources Ashti Hawrami has proposed seven amendments to the July 3 text, of which two are inconsequential, two are major, and three are minor but never previously discussed. The major ones concern whether the federal Council of Ministers has the power to supervise or follow up, and whether the region shares management with the to-be-formed Iraq National Oil Company (INOC) of operations within the region. An example of one of the minor amendments concerns who gets a decommissioned facility - the federal or regional authorities - but that will not come up for another 20 years or so. Leaders have now announced their decision to return to the February text, but no work has been done to put that agreement in writing and inform the CoM which is the correct version.

¶13. (C) Ghadban said all new contracts will need to pass review of the to-be-formed Federal Council on Oil and Gas (FCOG). Wisdom needs to prevail; the FCOG should decide on each production sharing agreement (PSA) based on the level of risk. Ghadban mentioned that the international oil companies (IOCs) are contacting him because they are all very worried about what to do. The revenue sharing law means that on a macro level, all money should go to the federal treasury, but one can not ignore the collateral added value to a region of an oilfield investment (e.g., employment). The Kurds worry that if they do not act on their own, their fields will not be developed. So, Ghadban favors a clause in the framework law that would give governors and regions the right to make proposals for exploration and production and have those consultations incorporated into the national energy plan.

¶14. (C) Ghadban added that in the 1970s, Iraq had entered into service contracts with IOCs, and in his view the economic effect is the same. Although not necessarily a wise political move, the Oil Ministry has the power to enter into service contracts now, and Ghadban understands the pressure on the Oil Minister. EMIN argued that there are significant differences between service and production sharing contracts, with the PSAs allowing IOCs to book reserves and thereby

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bring down the cost of capital. This helps justify the exploitation of marginal prospects. Ghadban returned to the problem of the KRG PSAs, saying that in February they only had had to worry about 4 or 5 contracts, and now the KRG has ¶14. In his view, the KRG is trying to twist arms, and he does not like it. He argued that everyone knows the Kurd timetable was never realistic (e.g., passage by May 2007), and in any event the Kurds agreed that if the framework law did not pass, they would consult with the GOI on the way forward. They never did. Moreover, oil wealth leads to corruption, and the Kurds are not revealing the terms of their PSAs (except two of the earliest ones, which Ghadban criticized as inferior to those negotiated under the Saddam era). The framework law would require the contracts to be published.

¶15. (C) Ghadban calculates that the GOI can count on 124 votes in the CoR, and could gain some independents to reach about 140 votes in favor of passage. With 275 members, the CoR needs 138 members present for a quorum, and then 50 percent plus one of those voting to gain passage. The Kurd position is blocking things, however. He noted that the Kurds may fear that an independent advisor might invalidate their existing PSAs. EMIN noted that if Oil Minister

Sharistani were to tender service contracts, he would face the same risk, and so it is in his interest to gain passage of the framework law. Ghadban commented that the KRG needs it even more, because it will have a problem of how to export any more oil it produces. It will need international agreement for cross-border pipelines, for which it would need the federal government to engage in a treaty. He has heard the KRG has also built eleven small refineries, which are running on oil smuggled from Kirkuk. He is not making any accusations, but noted that the Kurds have never faced any pressure from the USG; they have always gotten what they want. No one can object to the hydrocarbon law on economic grounds, the problems are all political.

#### COMMENT

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¶16. (C) The concerted USG effort earlier this year to push for passage seems to have been effective, as we see some lingering signs of momentum within the GOI. However, we still have much to do to secure passage of the framework law.

We plan to continue sounding out key contacts to press for swift passage. An effective political campaign also will be needed to demonstrate that the framework oil and gas law remains the best way for Iraq to maximize returns from the hydrocarbon wealth seeping away from its desert sands.

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